by the District and the Bureau in advance of any storage credit.

(b) An example of this concept is:

Example: Incentive Operation—(1) At the end of the 1996 irrigation season, the Bureau and the District audit the District's water records for 1996. The District's water delivery records show that 194,703 acre-feet of water were delivered to farm headgates. On the basis of their irrigated acreage that year (59,075) the farm headgate entitlement would have been 216,337 acre-feet. On the basis of 90 percent deliveries for 59,075 acres (194,203 divided by 216,337 = 0.90) the established Project efficiency requirement was 65.1 percent.

(2) On the basis of the established Project efficiency (66.1 percent), the Project diversion required to make the headgate deliveries would be expected to be 291,909 acre-feet (194,703 divided by 0.651 = 291,909). An examination of Project records reveals that the District only diverted 286,328 acre-feet which demonstrated actual Project efficiency was 68 percent and exceeded requirements of this part.

(3) The 5,581 acre-feet of savings (291,909–286,328 = 5,581) constitutes the savings achieved through efficiency improvements and the District would then be credited two-thirds (3,721 acre-feet = 5,581 × 2/3) of this water (deemed to be Carson River water savings) as incentive water.

(4) This incentive water may be stored in Lahontan Reservoir or otherwise used by the District in its discretion consistent with State and Federal Law (e.g., power generation, recreation storage, wildlife, drought protection, etc.).

§ 418.37 Disincentives for lower efficiency.

(a) If the District fails to meet the efficiencies established by this part, then, in effect, the District has borrowed from a subsequent year. The amount borrowed will be accounted for in the form of a deficit in Lahontan Reservoir storage. This deficit amount will be added to the actual Lahontan Reservoir storage quantity for the purpose of determining the Truckee River diversions to meet storage objectives as well as all other operating decisions.

(b) The amount of the deficit will be cumulative from year to year but will not be allowed to exceed 26,000 acre-feet (the expected variance between the MAD and actual water use). This limit is expected to avoid increasing the severity of drought and yet still allow for variations in efficiency over time due to weather and other factors. This approach should allow the District to plan its operation to correct for any deficiencies.

(c) The deficit can be reduced by crediting incentive water earned by the District or reducing the percentage of headgate entitlement delivered either through a natural drought or by the District and its water users administratively limiting deliveries while maintaining an efficiency greater than or equal to the target efficiency.

(d) If there is a natural drought and the shortage to the headgates is equal to or greater than the deficit, then the deficit is reduced to zero. If the shortage to headgates is less than the deficit then the deficit is reduced by an amount equal to the headgate shortage. During a natural drought, if the percentage of maximum headgate entitlement delivered is 75 percent or more then the District will be subject to the target efficiencies and resultant deficits or credits.

(e) If the District has a deficit in Lahontan Reservoir and earns incentive water, the incentive water must be used to eliminate the deficit before it can be used for any other purpose. The deficit must be credited on a 1 to 1 basis (i.e., actual efficiency savings rather than ⅓–⅔ for incentive water).

(f) An example of the penalty concept is:

Example: Penalty—In 1996 the District delivers 90 percent of the maximum headgate entitlement or 194,703 acre-feet 216,337 × .90) but actually diverts 308,000 acre-feet. The efficiency of the Project is 63.2 percent (194,703 divided by 308,000). Since the established efficiency of 65.1 percent would have required a diversion of only 299,083 acre-feet (194,703 divided by .651) the District has operated the system with 8,917 acre-feet of excess losses. Therefore, 8,917 acre-feet was borrowed and must be added to the actual storage quantities of Lahontan Reservoir for calculating target storage levels and Truckee River diversions.

§ 418.38 Maximum allowable diversion.

(a) The MAD established in this part is based on the premise that the Project should be operated to ensure that it is capable of delivering to the headgate of each water right holder the full water entitlement for irrigable eligible acres and includes distribution

system losses. The MAD will be established (and is likely to vary) each year. The annual MAD will be calculated each year based on the actual acreage to be irrigated that year.

(b) Historically, actual deliveries at farm headgates have been approximately 90 percent of entitlements. This practice is expected to continue but the percentage is expected to change. This variance between headgate deliveries and headgate entitlements will be calculated annually under this part and is allowed to be diverted if needed and thereby provides an assurance that full headgate deliveries can be made. The expected diversion and associated efficiency target for the examples shown in the Newlands Project Water Budget table would be: 285,243 AF and 65.1 percent in 1996 and beyond. These are well below the MAD limits; however, the District may divert up to the MAD if it is needed to meet valid headgate entitlements.